Umkhandlu wakwa - NONGOMA - Local Municipality
Tel: (035) 831 7500|Fax: (035) 831 3152|P.O. Box 84|Nongoma 3950
Lot 103 Main Street - Nongoma 3950

MSCOA

NONGOMA LOCAL MUNICIPALITY
VIREMENT POLICY

INDEX

1. DEFINITIONS

Act: - means the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003);

Accounting Officer (MFMA): - (a) "in relation to a municipality, means the municipal official referred to in section 60; or (b) in relation to a municipal entity, means the official of the entity referred to in section 93"

Approved Budget (MFMA): - means an annual budget -

a) approved by a municipal council; or

b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;"

Chief Financial Officer (MFMA): - a person designated in terms of section 80(2)(a) of the Municipal Finance Management Act No. 56 of 2003;

Council: - means the municipal council of Nongoma local Municipality and it referred to in section 18 of the Municipal Structures Act No. 117 of 1998;

Financial year: - means a twelve-month period commencing on 1st July and ending on 30th June each year;

Mayor (MFMA): - in relation to: -

(a) a municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structure Act; or

(b) a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of that Act;

Municipality: - Nongoma local Municipality;

mSCOA: - refers to the Municipal Standard Chart of Accounts and provides a uniform recording and classification of municipal budget and financial information at a transactional level.

Overspending (MFMA): - in relation to:

a) The budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

b) A vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

c) Expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;"

Virement: - means the process of transferring an approved budgetary provision from one operating sub-function to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the approved budget.

Vote (MFMA): - means -

a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned;

2. LEGISLATIVE FRAMEWORK

2.1 Section 81(1)(d) of the Act states inter alia that "The chief financial officer of a municipality must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;"

2.2 Section 78(1)(b) of the Act states inter alia that "Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;"

2.3 National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to report their annual, monthly,

mid-year and adjustments Budgets. The objectives of the budget formats reforms in terms of these regulations are:

a) To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Act;

b) To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.

c) To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability;

d) To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

2.4 MFMA Circular No 51 issued on 19 February 2010 states that each municipality must put in place a Council approved virement policy, which should provide clear guidance to managers of when they may shift funds between items, projects, function, fund, costing, region and municipal standard classification (Mscoa segments).

3. <u>POLICY OBJECTIVE</u>

3.1 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls. It is aimed to:

a) Provide greater flexibility to Senior Managers (heads of departments) of the municipality in managing their budgets;

b) Provide clear guidance to Senior Managers on when they may shift funds between items, projects, function, fund, costing, region and municipal standard classification;

c) Enable Senior Manager to act on occasions such as disasters, emergency and unforeseen events as they arise so as to accelerate service delivery in a financially responsible manner; and

d) Empower Senior Managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Municipality's system of delegations.

4. VIREMENT REQUIREMENTS

4.1 In order for a department to transfer funds between projects and line items within projects, a saving has to be identified within the monetary limitations of the approved "giving" line item or cost centre allocations within the department.

4.2 There must be sufficient, non-committed budgetary provision available within the "giving" line item and / or cost concerned to give effect to the budgetary transfer.

4.3 In addition, the department concerned must clearly indicate from which project and item within the project and to which line item and / or cost center, including clear identification of vote numbers, transfers will be made, the amount involved and a clear motivation for the transfer.

4.4 In cases of emergency situations virements shall be submitted by the Heads of the Departments to the Accounting Officer for authorization and be reported by the Accounting Officer to Council at its next meeting following the occurrence of emergency.

4.5 Virement resulting in adjustments to the approved SDBIP by the user Department need to be submitted with an Adjustments Budget to Council with altered outputs and measurements for approval, and must indicate changes to the (SDBIP), and the impact that this will have on the performance objectives as set out in the municipality's Multi-Year Business Plan.

4.6 An approved virement does not give authority for projects not budgeted for and all expenditure resulting from approved virements must still be subject to the prescribed procurement processes as contained in the municipality's approved Supply Chain Management Policy.

4.7 In the first year of the mSCOA implementation, virements will be allowed to correct cost allocations over the seven (7) segments with no limitation on the amount subject to:

a) The function may not be changed.
b) The original budget segment allocation may not be exceeded.
c) Budget funds may only be shifted within a budget "*vote*".
d) The virement must be with the same funding segment.
e) For capital the segment virement must remain within the same project segment.

4.8 Any transfers or adjustments falling outside the scope of this policy must be dealt with in accordance with budget adjustment process in terms of section 28 of the Municipal Finance Management Act (MFMA).

5. VIREMENT PROCESS

5.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a vote during a financial year.

5.2 The Budget Office shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

a) The name of the department concerned;
b) Descriptions of the line items from and to which the transfer is to be made;
c) The amount of the proposed transfer;
d) The cause of the saving in the line item from which the transfer is to be made;
e) The justification or motivation for the transfer;
f) A description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.

5.3 Each proposal for a transfer shall be submitted by the Manager concerned to the Budget Office and if:

a) The amount of the transfer does not exceed the amount referred to in paragraph 6.1 (a) and (b), and the transfer is not between cost centres, the Accountant Budget or Manager : Budget & Treasury shall:
   (i). approve the proposal, or
   (ii). reject the proposal; or
   (iii). refer the proposal to the Chief Financial Officer for approval or rejection;

b) The amount of the transfer does exceed the amount referred to in paragraph 6.1(c) and the transfer is between cost centres, the Chief Financial Officer shall refer the proposal to the Accounting Officer who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

6. AUTHORISATION OF VIREMENTS

6.1 A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy and the delegations framework of the municipality, be authorised as follows:

a) If the amount does not exceed **R 35 000**, the transfer may be authorised by the Accountant Budget after consultation with the Manager: Budget & Treasury;

b) If the amount exceeds **R 35 000** but does not exceed **R 70 000**, the transfer may be authorised by the Manager: Budget & Treasury after consultation with the Chief Financial Officer;

c) If the amount exceeds **R 70 000** but does not exceed **R 1 000 000**, the transfer may be authorised by the Chief Financial Officer of the Municipality on the recommendation of the Accounting Officer.

d) Notwithstanding the provisions above, a transfer of funds between cost-centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by Accounting Officer**.**

7. LIMITATIONS ON AMOUNTS OF VIREMENT

7.1 **Notwithstanding the provisions of Section 6 above:**

7.2 The total amount transferred from and to line items within a particular vote in any financial year may not exceed **30 %** of the amount allocated to that vote.

7.3 The total amount transferred from and to line items in the entire budget in any financial year may not exceed **30%** of the total operating budget for that year.

7.4 The amount of any one transfer of funds between line items may not exceed the sum of **R 1 000 000**.

7.5 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to above may, however, be only performed if the Council, by resolution approves thereof.

8. VIREMENT RESTRICTIONS

8.1 A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:

a) Contravene any policy of the Municipality; or

b) Alter the approved outcomes or outputs of an Integrated Development Plan; or

c) Result in any adjustment to the Service Delivery and Budget Implementation Plan.

8.2 If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.

8.3 To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

8.4 In terms of Section 17 of the Act a municipality's budget is divided into an operating and capital budget and consequently no Virements are permitted Budgets.

8.5 No virements are permitted to and from Grants and Subsidies Paid, except if supported by Council decision for such transfer and as per the approved Grants-in-Aid Policy.

8.6 Virements towards personnel expenditure including Councillors remuneration is not be permitted unless adopted via an Adjustment Budget.

8.7 No virements are permitted to and from the following mSCOA item expenditure:

a) Bulk Purchases
b) Interest Charges
c) Employee Related costs
d) Indigent Relief and Revenue Forgone
e) Insurance
f) Value added Tax (Vat)
g) Statutory Funds

8.8 No virements are permitted to and from the following non-cash mSCOA item expenditure:

a) Debt Impairment
b) Depreciation
c) Departmental Charges

8.9 No virements will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustments budget.

8.10 No virements of which the affect will be to add “new” projects onto the Capital Budget, will be allowed unless Council approval is obtained prior to the commencement of the project subject to the following exception:

a) Virements for movable assets up to a value not exceeding R 500 000 will be permitted to be actioned prior to obtaining Council’s approval after completion of a virement form that has been duly authorized by the respective Deputy Accounting Officer.

b) Virements may not cause an increase to individual projects’ total project cost unless Council approval is obtained.

c) Virements must be between projects of similar funding sources (e.g. External Financing Fund ↔ External Financing Fund) within the same function.

d) Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).

e) Motivations for virements should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.

f) Any capital budget amendments as approved by Council to be incorporated adjustments budget as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.

g) With regards to Repairs and Maintenance mSCOA item expenditure the following is applicable:

(i). **Prohibiting** transfers from Repairs and Maintenance (Labour and transport component – non-cash) to other mSCOA item expenditure;

(ii). **Limitation** of transfers of Repairs and Maintenance (materials and contracted services) to other Repairs and Maintenance mSCOA item expenditure.

9. REPORTING

The Chief Financial Officer shall, report to the Accounting Officer on all virements monthly, and the Accounting Officer shall, within seven working days of the end of each quarter submit a report of all virements and budget transfers to the Mayor/Council.

10. EFFECTIVE DATE

This policy will become effective upon the approval and adoption of the municipal council.